



## REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF MOGALAKWENA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006

### 1. AUDIT ASSIGNMENT

The financial statements as set out on pages ... to ..., for the year ended 30 June 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004). These financial statements are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

### 2. SCOPE

I planned to conduct my audit in accordance with International Standards on Auditing read with *General Notice 773 of 2004*, issued in *Government Gazette* no. 26511 of 1 July 2004. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, as well as
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

### 3. BASIS OF ACCOUNTING

The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as described in paragraph 1 of the accounting policies to the financial statements.

### 4. QUALIFICATION

#### 4.1 Completeness of revenue

The following weaknesses relating to control over the completeness of revenue came to my attention during the execution of the audit:

- I could not be supplied with the face value documents register in the licensing department. As a result it was not possible to verify that this register serves its purpose in ensuring that face value forms are properly controlled.
- Errors and oversights relating to new connections were made during the year resulting in certain consumers not being billed for usage.
- A number of consumer files and application forms relating to disconnections could not be provided for audit purposes.
- No monthly reconciliations are performed between water and electricity purchases and the sale of these to consumers and as a result thereof, water losses for the year under review amount to an estimated 42.93% of water purchased. Electricity losses encountered are approximately 5% more than what is considered acceptable.

In view of the above I have not been able to obtain sufficient appropriate audit evidence to satisfy myself regarding the completeness of revenue recorded in the financial statements of the Municipality.

#### **4.2 Interest charged on arrear debtor accounts**

Although current government policy prevents disconnection of consumer accounts in case of default, there has been a lack of implementation of compensating controls to ensure effective debtor management. As a result of a lack of controls, total consumer debtors increased by 45% during the year. A significant portion of the Municipality's debtors are also considered irrecoverable.

During the year under review the Municipality charged interest of approximately R10 m on arrear debtor accounts. GAMAP 9.60, read with section 64(2)(g) of the MFMA, does not allow the recognition of interest that is not considered recoverable. In view of the fact that a large percentage of the debtors on which interest have been raised have already been provided for as irrecoverable, I do not consider the interest recoverable. As a result I believe that revenue is overstated by the amount of this interest raised.

#### **4.3 Land and Buildings**

Municipal Buildings were last revalued as per the valuation roll dated 1 July 2002. GAMAP 17.41 requires that revaluations be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. As a result of the time span of four years between valuations I am of the opinion that the carrying value of municipal buildings is materially understated in the financial statements. The amount of the understatement could not be determined.

GAMAP 17.41 also requires that depreciation should be provided on buildings that are subject to revaluation. No depreciation has been provided on municipal

buildings carried at revaluation. If depreciation had been provided on municipal buildings this would have reduced the carrying value of such buildings.

In view of the above the carrying value of Municipal Buildings is materially misstated in the financial statements.

## **5. DISCLAIMER OF OPINION**

Because of the significance of the matters discussed in the preceding paragraphs, I do not express an opinion on the financial statements.

## **6. EMPHASIS OF MATTERS**

Attention is drawn to the following matters:

### **6.1 Value Added Tax (VAT) liability not raised**

The Municipality understated its output VAT liability relating to services rendered to a customer during the year by an amount of R943 035.

### **6.2 Overpayment of suppliers**

Overpayments to suppliers totaling R1.9m during the year under review were revealed by my audit procedures.

### **6.3 Non compliance to legislation**

My audit procedures revealed the following instances of non-compliance to legislation:

- Two instances were identified where the consumer accounts of Councilors were in arrears for more than three months in contravention of the Municipal Systems Act.
- The Municipality's fraud prevention plan was not implemented during the year under review.
- The Municipality does not have a formal complaint management system in place as required by section 95 of the Municipal Systems Act.

### **6.4 Fixed assets not transferred**

Prior to 1 July 2003 fire fighting services were rendered by the municipality. However, in terms of section 85 of the Local Government: Municipal Structures Act, 1998, (Act No. 117 of 1998), the relevant district municipality has been authorised to perform fire fighting services. In terms thereof, the relevant district municipality is the service authority, effective 1 July 2003.

The service delivery agreements required that all assets linked to the service and previously included in the asset register of the municipality should be transferred to the district municipality, however, those assets have not yet been transferred. As a result the asset register includes assets belonging to the district municipality.

#### **6.5 GAMAP Implementation**

Cognisance should be taken of the fact that the Municipality has been pro active in the implementation of GAMAP despite it being categorised as a low capacity municipality. Low capacity municipalities need to be GAMAP compliant only in the 2007/2008 financial year.

#### **7. APPRECIATION**

The assistance rendered by the staff of the Mogalakwena Municipality during the audit is sincerely appreciated.



D J Strydom  
for Auditor-General

POLOKWANE

30 November 2006